

Message Text

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ACTION NEA-10

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 7534

INFO AMCONSUL DHAHRAN

USLO RIYADH

UNCLAS JIDDA 1787

FROM AMBASSADOR

E.O. 11652: N/A

TAGS: EFIN, OGEN, PGOV, SA

SUBJ: US BUSINESS REACTION TO TAX REFORM ACT OF 1976

1. THE INDUSTRIAL RELATIONS COMMITTEE OF RIYADH, SAUDI ARABIA, REPRESENTING SOME 35 LARGE US COMPANIES CONSISTING OF APPROXIMATELY 5,000 US CITIZENS INVOLVED IN BUSINESS IN SAUDI ARABIA, SUBMITTED THE STATEMENT QUOTED BELOW REGARDING THEIR CONCERN ABOUT THE NEGATIVE IMPACT OF THE TAX REFORM ACT OF 1976. AS THESE BUSINESSMEN HAVE SAID, SAUDI ARABIA WITH ITS OIL RESERVES AND ITS EVER-INCREASING MONETARY RESOURCES IS A COUNTRY WHERE WE HAVE VITAL ECONOMIC INTERESTS. A TAX LAW WHICH REDUCES THE ABILITY OF AMERICAN COMPANIES TO COMPETE AND WHICH MAY REDUCE ACTUAL AMERICAN PRESENCE IN THESE VITAL ECONOMIC AREAS WILL ADVERSELY AFFECT US INTERESTS IN THE KINGDOM. I WOULD APPRECIATE YOUR FORWARDING THIS STATEMENT (BELOW) TO INTERESTED INDIVIDUALS IN THE ADMINISTRATION AND THE CONGRESS AS AN EXPRESSION OF THE CONCERN MANY HERE SHARE OVER THE SERIOUS CONSEQUENCES WHICH COULD RESULT FROM THE NEW TAX LAW.

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2. THE STATEMENT IS QUOTED IN TOTAL. QUOTE. THE INDUSTRIAL RELATIONS COMMITTEE OF RIYADH, SAUDI ARABIA, UNANIMOUSLY SUBMIT THE FOLLOWING STATEMENT REGARDING THE IMPACT OF THE TAX REFORM ACT OF 1976:

A. THE COMMITTEE CONSIDERS THE INDIVIDUAL INCOME TAX PORTIONS OF THE TAX REFORM ACT OF 1976 TO BE PUNITIVE

AND DISCRIMINATORY AGAINST US CITIZENS AND US COMPANIES OVERSEAS AND, IN ITS PRESENT FORM WILL SUBSTANTIALLY REDUCE US PRESENCE IN SAUDI ARABIA IN THE YEARS TO COME.

WE FURTHER BELIEVE THAT IT IS IN THE BEST INTEREST OF THE UNITED STATES TO ENHANCE AND MAINTAIN OUR MOST CORDIAL RELATIONS WITH SAUDI ARABIA, A MAJOR SOURCE OF EVER INCREASING US OIL IMPORTS. THEY ALONE POSSESS THE WORLD'S LARGEST, SINGLE, KNOWN OIL RESERVES.

B. THE COST TO US FIRMS DOING BUSINESS OVERSEAS IS PROHIBITIVE DUE TO THE PUNITIVE METHOD OF CALCULATING THE INDIVIDUAL'S US INCOME TAX AS SET OUT IN THE TAX REFORM ACT OF 1976. THIS INCREASED COST COUPLED WITH THE REQUIREMENT TO INCLUDE, AS GROSS INCOME, AMOUNTS PAID BY EMPLOYERS FOR ITEMS SUCH AS SCHOOLING FOR CHILDREN (FREE IN THE USA), HOUSING, UTILITIES, AND TRANSPORTATION TO AND FROM HOME ON VACATIONS HAS RESULTED IN THE FOLLOWING:

(1) ON AN AVERAGE, THE US TAXPAYER IN SAUDI ARABIA NOW HAS A LOWER AFTER-TAX TAKE HOME PAY THAN HIS CONTINENTAL US COUNTERPART WITH THE SAME BASE PAY.

(2) US FIRMS, IN ORDER TO PREVENT MASS RESIGNATIONS OF ITS QUALIFIED MANAGERS, ENGINEERS, AND TECHNICIANS, MUST NOW SUBSIDIZE, IN ALMOST ALL CASES, THE INCREASED INDIVIDUAL TAX LIABILITY, THUS INCREASING THE OVERALL COST OF CONDUCTING BUSINESS OVERSEAS.

(3) THE TAX RELIEF SUBSIDIES PAID TO RECRUIT AND RETAIN US EMPLOYEES RESULTS IN AN INORDINATE AND DISASTROUS INCREASE IN THE COST OF DOING BUSINESS FOR US COMPANIES, THEREFORE MAKING US FIRMS NON-COMPETITIVE.

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TIVE COMPARED TO OTHER TECHNICALLY COMPETENT FOREIGN FIRMS WHOSE OVERSEAS EMPLOYEES DO NOT PAY ANY TAXES TO THEIR HOME COUNTRIES.

(4) THE TAX SUBSIDY PAID TO RETAIN TECHNICALLY QUALIFIED PEOPLE IS ADDITIVE TO THE INDIVIDUALS GROSS INCOME FOR SUBSEQUENT YEARS, AND IS EVER INCREASING, SO THAT EMPLOYERS ARE FORCED TO ROTATE THEIR HIGHLY EXPERIENCED PEOPLE, AFTER A FEW YEARS, BECAUSE THE COST BECOMES TOTALLY PROHIBITIVE.

C. THE LONG TERM IMPACT OF THE TAX REFORM ACT OF 1976:

(1) IT WILL REDUCE, AND IN SOME CASES ELIMINATE, THE US OVERALL SHARE OF THE SAUDI MARKET.

(2) IT WILL ADD TO THE UNEMPLOYMENT RATE IN THE USA.

(3) IT WILL NEGATIVELY IMPACT THE US TRADE BALANCE AND THE LONG-RANGE VALUE OF THE US DOLLAR THUS INCREASING COST OF IMPORTS.

(4) IT WILL TEND TO ESTRANGE THE RELATIONSHIP

BETWEEN THE US AND SAUDI ARABIA AS THE SAUDIS REALIZE
THEY WILL HAVE TO PAY MORE FOR THE SAME GIVEN AMOUNT OF
US GOODS AND SERVICES.

(5) IT WILL LOWER PROFITS OF US COMPANIES
INVOLVED OVERSEAS, THUS LOWERING CORPORATE TAXES TO THE
US GOVERNMENT.

(6) IT WILL REDUCE DEMAND FOR US GOODS OVER-
SEAS THUS REDUCING DEMAND ON OUR FACTORIES, AND THE
US GROSS NATIONAL PRODUCTS.

END QUOTE.

PORTER

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